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REGULATORY AUTHORITY AND OPERATIONAL COMPLIANCE OF SPECIFIED NON-DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

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Abstract

Savings and Credit Cooperatives (SACCOs) are important to Kenya's financial sector, promoting financial inclusion and economic empowerment through savings and affordable credit. However, recent data shows a decline in the capital adequacy and liquidity ratios of SACCOs in Nairobi City County, signaling potential financial instability. The general objective of the study was to examine the effect of regulatory authority on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya. The specific objectives of the study were to examine the effect of authorization, regulation, supervision and promotion of sound business practices on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya. The study adopted a systematic review of literature. The study found that authorization, regulation, supervision and promotion of sound business practices influenced operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya. The study concluded that regulatory authority plays a significant role on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya. It recommends that SASRA should enhance its focus in streamlining the authorization process for non-deposit taking SACCOs, improve operational compliance. Timely and efficient processing of authorization requests is important for providing SACCOs with clear regulatory guidance. SASRA should regularly assess approval rates to identify challenges and make timely adjustments to regulatory standards. Continuous monitoring of adherence to authorization standards would ensure effective compliance and financial management. Regulators should emphasize the effective implementation of regulations to uphold high standards in disclosure, capital adequacy, and liquidity. Increased supervisory efforts, with frequent inspections, could identify problems early for prompt resolution. Prioritizing sound business practices, including governance, risk management, and internal controls, would further enhance compliance and stability within SACCOs.

Keywords: *Regulatory Authority, Operational Compliance, Non-deposit Taking SACCOs*

Background of study

A cooperative is a legal entity that is owned and governed democratically by its members. The members are typically closely connected to the cooperative, either as producers, consumers of its products or services, or as employees (Hayati, 2022). Cooperatives stand out from other businesses because they are owned by their members and exist to serve their interests, rather than focusing on generating profits for investors (Kaswan, 2021). Cooperatives empower individuals to shape their economic future. Since they are not owned by shareholders, the economic and social benefits remain within the communities where they operate. Profits are either reinvested in the cooperative or distributed back to the members (Bharti, 2021). However, cooperatives are subjected to regulations to which they must comply hence ensuring effective and transparent operation.

Cooperatives comply with regulations through a combination of oversights from regulatory authorities and adhere to established legal and operational standards (Huiskers-Stoop & Gribnau, 2019). National laws stipulate various legal requirements such as registration, governance structures, and operational standards which cooperatives must comply by maintaining accurate records, submitting annual reports, and ensuring transparency in financial dealings (Pönkä, 2019). Also, cooperatives implement internal controls and procedures which involve establishing robust financial management systems, conducting regular internal audits, and ensuring that all operational practices align with legal requirements. In addition, cooperatives conduct regular audits and reviews to identify and address potential compliance gaps (Bharti, 2021) cooperatives are further required to regularly report to regulatory authorities, providing updates on their financial status, governance practices, and compliance with relevant laws. This promotes transparent communication with regulators which helps build trust and demonstrates the cooperative's commitment to adhering to legal and ethical standards (Hopt, 2021). The regulation of cooperatives involves regulatory authorities who ensure that cooperatives operate within legal and ethical framework.

The regulation of cooperatives is managed by various authorities, which vary based on the country and its legal framework. In many countries, the regulation of cooperatives is managed by a national or central authority that oversees cooperative societies across the entire country (Ajates, 2020). This authority is responsible for registering cooperatives, monitoring their compliance with national cooperative laws, and providing guidance on legal and regulatory matters. In decentralized countries, individual states or regions have their own regulatory bodies who often manage the registration and oversight of cooperatives, ensuring they adhere to local laws and regulations (Smith, 2023). Furthermore, international organizations such as the International Co-operative Alliance (ICA) provide guidance and support to cooperatives worldwide, promoting best practices and standards.

In different parts of the world, regulatory authorities play a crucial role in shaping the operational compliance of cooperatives. The authorities create comprehensive laws and regulations covering cooperative formation, management, and dissolution. By defining requirements for registration, governance, financial reporting, and member rights, the authorities ensure that cooperatives operate within a structured and legally sound environment (Ajates, 2020). This legal framework helps prevent mismanagement and promotes fairness and accountability. In addition, regulatory bodies play a crucial role in monitoring and enforcement by conducting regular audits, inspections, and reviews to assess compliance with legal standards (Smith, 2023). This monitoring helps maintain operational integrity and promotes trust among stakeholders, ensuring that cooperatives fulfill their obligations and operate effectively within their legal framework.

In Nigeria, Oruonye & Ahmed (2020) observed that regulatory authorities conduct audits and inspections to ensure adherence to imposed regulations and provide support through training programs. Brown (2022) observed that they enforce compliance by imposing penalties or corrective measures on non-compliant cooperatives, ensuring that they operate within the legal framework to maintain transparency and accountability. In South Africa, Smit (2020) observed that regulatory authorities shape the operational compliance of cooperatives through a structured legislative framework, enforcement mechanisms, and supportive initiatives. In Uganda, (Nuwagaba, 2023) argued that regulatory authorities significantly impact the operational compliance of cooperatives through their role in enforcing legal standards, providing oversight, and offering support. In Kenya, (Mbiru, 2019) observed that regulatory authorities provide valuable support services, including training and capacity-building programs.

Statement of the Problem

Savings and Credit Cooperatives (SACCOs) play a significant role in the Kenya's financial ecosystem, financial inclusion and economic empowerment. SACCOs not only offer essential services to underserved individuals but they also promote entrepreneurship and economic activity through regular savings and affordable credit ((Ndegwa & Koori, 2019) The operational performance of SACCOs in Kenya is indicated by their ability to manage financial stability effectively, achieve membership growth, maintain strong loan performance, and ensure operational efficiency. These aspects are supervised by Sacco Societies Regulatory Authority (SASRA). SASRA has a mandate of ensuring that SACCOs maintain financial stability, adhere to regulatory standards, and manage their operations efficiently (Mwikoma, 2020). SASRA achieves this by establishing and enforcing guidelines that support SACCOs in provision of essential services, promotion of economic activity as well as adherence to best practices.

In the last five years, SACCOs in Nairobi City County have indicated a decrease in capital adequacy and liquidity ratios. SACCO capital adequacy in the year 2019 was 10.5%. It decreased to 8.1% in 2020, 10.4% in 2021, 10.3% in 2022 and 9.4% in 2023. Liquidity ratio in the SACCOs decreased from 50.92% in 2019 to 48.50% in 2020 then increased to 66.45% in 2021, 64.72% in 2022 and decreased to 55.34% in 2023 (SASRA Report 2023). According to SASRA report, the decrease in capital adequacy of SACCOs from 10.5% in 2019 to 9.4% in 2023 and change in liquidity ratios from 50.92% in 2021 to 55.34% in 2023 indicates financial instability among the SACCOs which may affect the ability of SACCOs to counter react to potential financial risks. These challenges may be associated with strict regulatory requirements and increased compliance cost. To address the challenge, thorough investigation has to be done to understand the relationship between authorization, regulation, supervision, promotion of sound business practices and operational compliance of specified non-deposit-taking SACCOs.

Various studies have been conducted on regulatory authority and operational compliance. In India, Dutta and Singh (2021) found that well-defined regulatory frameworks with clear guidelines and enforcement mechanisms significantly enhance compliance among SACCOs. In Nigeria, Chukwu and Adibe (2022) found that SACCOs with strong governance frameworks with effective boards and clear policies, are more likely to achieve high levels of compliance. Despite the ongoing regulatory reforms and efforts to improve operational compliance among specified non-deposit taking SACCOs in Kenya, there is limited empirical evidence demonstrating the influence of regulatory authority on operational compliance (Mwikoma, 2020). This gap in literature emphasizes the need for a thorough assessment of how regulatory oversight affects compliance practices in SACCOs. It is in this context that this study aims to evaluate the impact of regulatory authority on operational compliance in specified non-deposit taking SACCOs in Kenya.

Objectives of the Study

The General objective was to find out the effect of regulatory authority on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya. The specific objectives were as follows:

i. To investigate the effect of authorization on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya
ii. To determine the effect of regulation on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya

iii. To establish the effect of supervision on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya
iv. To find out the effect of promotion of sound business practices on operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya

Literature Review

Theoretical Review

Agency theory

Agency theory was formulated by Jensen and Meckling in 1976. They defined the agency relationship as a contractual arrangement between a company's owners and its managers (Tijjani & Bello, 2019). In this arrangement, the owners (principal) appoint managers (agent) to manage the company on their behalf. As part of this contract, the owners delegate decision-making authority to the managers. The expectation is that the managers will act in the best interests of the owners (Anggoro & Yulianto, 2019). Ideally, the contract should ensure that managers consistently prioritize the owners' interest. However, achieving a 'perfect contract is challenging because managerial decisions impact both their personal welfare and the owners' interest.

Agency theory is grounded in several foundational assumptions. One fundamental assumption is that both principal and agent are rational actors who seek to maximize their own utility. However, critiques argue that this assumption oversimplifies the complexity of human decision-making (Cruz & Haugan, 2019). Another key assumption of the theory is the presence of information asymmetry where the agent has more detailed information about their own actions and performance than the principal (Albertus, 2019). Critics argue that the theory may underestimate the potential for principal and agent to share information and collaborate effectively. Agency theory often assumes that there is an inherent conflict of interest between principal and agent. Agents are often motivated by personal goals that may not align perfectly with the goals of the principal.

Agency theory was employed to explain the relationship between regulatory authority and operational compliance of non-deposit taking SACCOs. The adoption of the Agency theory reveals a need of effective measures which ensures that SACCO management acts in the best interests of regulators and stakeholders. Effective regulatory authority, as indicated by agency theory, aligns management actions with stakeholder interests, hence improving operational compliance. To ensure that the interest of the shareholders is met, the organizations' management should address agency costs, managing information asymmetry, and align interests through regulatory and supervisory mechanisms. By doing this, SACCOs can improve their governance and operational effectiveness, ultimately serving the best interests of their members.

Compliance Theory

Compliance theory was formulated by Michael Power in the year 1997. Compliance theory provides a framework for understanding organizational adherence to regulatory requirements (Martinez, 2020). The theory advocates for integrating compliance into everyday practices and promoting a culture that values regulatory adherence. The theory also highlights the importance of effective enforcement mechanisms and incorporates behavioral insights into how individuals within organizations respond to regulations (Hoffman, 2022). Compliance theory impacts the design of regulatory frameworks and guides organizations in adopting proactive and culturally embedded approaches to ensure adherence.

Compliance theory operates under key assumptions that shape its framework for understanding how organizations adhere to regulatory requirements. One key assumption is that the clarity and specificity of regulations are crucial for effective compliance. However, critiques argue that the theory oversimplifies the relationship between clarity, enforcement, and actual compliance (Li & Liu, 2022). The theory also assumes that an organizational culture which prioritizes ethical behavior and values regulatory adherence will enhance the organization's commitment to compliance. Critique posits that the theory oversimplifies the complexities of how culture interacts with regulatory adherence (Hoffman, 2022). Organizational culture is multifaceted and can be influenced by a variety of factors, including leadership styles, employee perceptions, and external pressures.

Compliance theory was adopted to explain the relationship between regulatory authority and operational compliance of non-deposit taking SACCOs. The theory provides the need for clear reporting requirements, regular audits, and fostering a culture of transparency and accountability. The theory guides the creation of explicit regulatory standards and effective monitoring and enforcement mechanisms. It also promotes a culture of compliance within organizations through ongoing training and collaboration. By aligning management actions with stakeholder interests, compliance theory supports improved operational effectiveness and ensures that SACCOs meet regulatory expectations and maintain accountability.

Stakeholder Theory

Stakeholder theory was founded by Edward Freeman in 1984. According to this theory, a wide range of interested parties must be considered when defining a stakeholder (Goyal, 2022). Stakeholder Theory provides a comprehensive framework for understanding the role of various stakeholders in organizational decision-making and performance. By emphasizing the importance of identifying, engaging, and balancing the interests of all stakeholders, the theory promotes more ethical, sustainable, and effective business practices (Freeman, Phillips & Sisodia, 2020). While it presents challenges in terms of balancing interests and measuring performance, its principles offer valuable guidance for organizations seeking to create long-term value and maintain positive relationships with their stakeholders.

Stakeholder theory is grounded on several foundational assumptions that shape its approach to organizational management and ethical decision-making. One key assumption is that organizations interact with a diverse range of stakeholders, each with their own interests and expectations (Barney & Harrison, 2020). However, critique argues that it can be impractical to balance the diverse and often conflicting interests of multiple stakeholder groups. The theory also assumes that ethical and normative considerations are crucial to business decisions, advocating for fair and equitable treatment of all stakeholders beyond mere legal requirements (Berman & Johnson-Cramer, 2019). Critique posits that ethical and normative considerations might lead to subjective interpretations of what constitutes fair treatment.

Stakeholder theory was employed to explain the relationship between regulatory authority and operational compliance of non-deposit taking SACCOs. One key problem with regulatory authority is the need for regulatory frameworks and oversight that consider diverse stakeholder interests. Compliance theory advocates for a culture of compliance and ethical behavior that supports operational effectiveness and stakeholder satisfaction. To establish a culture of compliance and ethical behavior, regulatory authorities and SACCOs must establish clear regulatory standards, promoting ethical behavior as a core value, and creating robust compliance programs that include policies, training, and regular audits. SACCOs should enhance transparency and accountability through open reporting mechanisms and ensure ethical leadership setting a positive example.

Empirical Review

Authorization and Operational Compliance

Dutta and Singh (2021) explored the impact of digitalization on compliance practices in Indian firms. Data was analyzed from a survey of companies that have implemented digital compliance solutions. The study found that digitalization has led to improved efficiency and accuracy in compliance processes. However, the study also notes that there are challenges related to digital literacy and the integration of new technologies with existing systems. The study therefore recommends that further investment in digital infrastructure and training is essential for maximizing the benefits of digital compliance tools.

In Pakistan, Karim and Shetu (2020) conducted a study on operational compliance in the Pakistani Financial Sector. The aim of the study was to assess the state of compliance within Pakistan's financial sector. This research, which includes data from regulatory agencies and financial institutions, revealed that while regulatory frameworks are in place, there are challenges with enforcement and adherence to compliance standards. The study found that improved regulatory oversight and more stringent enforcement are necessary to ensure that financial institutions adhere to compliance requirements effectively.

In Nigeria, Onyeje, Court and Agbaeze (2022) investigated the effect of regulatory frameworks on small and medium enterprises (SMEs). The study mainly focused on how SMEs in Nigeria manage authorization and compliance. The study employed empirical data from a survey of SMEs to analyze the impact of regulatory requirements on these businesses. The study found that SMEs face substantial difficulties due to the high cost of compliance, complex regulatory procedures, and frequent changes in regulations. The research underscores the need for simplified regulatory guidelines and targeted support to help SMEs navigate compliance challenges more effectively.

Mbise and Baseka (2022) explored the digitalization and compliance practices in Tanzanian Firms. The main aim of the study was to examine how the adoption of digital tools affects compliance practices among Tanzanian businesses. The research, which includes data from firms that have integrated digital compliance solutions, found that while digitalization has generally improved compliance efficiency and accuracy, there are considerable challenges related to limited technological infrastructure and digital literacy. The study argued that investments in digital infrastructure and employee training are essential for enhancing the effectiveness of digital compliance tools and overcoming existing barriers.

In Kenya Maingi, Kinanga and Odimba (2019) examined the impact of regulatory frameworks on SMEs. The study explored how SMEs manage authorization and compliance within the Kenyan regulatory landscape. The study employed empirical data from a survey of SMEs. The study found that these businesses often struggle with the complexity of regulatory requirements and frequent changes in regulations. The study highlighted that SMEs face substantial compliance costs and resource constraints, which impede their ability to effectively manage regulatory obligations. The study therefore recommended that simplifying regulatory guidelines and providing targeted support to help SMEs navigate the compliance landscape more effectively.

Regulation and Operational Compliance

In Europe, Popescu (2019) examined the influence of EU Regulatory Frameworks on business compliance: The study investigated how European Union regulations affect operational compliance across various industries. The study used data from a survey of businesses in multiple EU countries. The study found that while EU regulations generally improve consistency and transparency, they also pose challenges related to regulatory complexity and compliance costs. The study indicates that businesses often struggle with the burden of adhering to diverse regulations and recommend that EU institutions consider regulatory simplification and harmonization efforts to alleviate these challenges.

In Nigeria, Chukwu and Adibe (2022) conducted a study on the regulatory compliance and authorization challenges faced by businesses. The research primarily investigated the obstacles that hinder effective compliance management. Data was gathered through surveys and interviews with business owners and compliance officers. The study identified key matters as bureaucratic inefficiencies and inconsistent enforcement of regulations. To address these problems, it recommended implementing regulatory reforms designed to streamline processes and improve enforcement mechanisms, with the goal of enhancing overall compliance outcomes and reducing the operational challenges for businesses.

In South Africa, Nieuwenhuizen (2019) conducted a study on regulatory compliance within South African businesses. This research explored ways businesses navigate and manage adherence to South Africa's regulatory framework. Utilizing data from surveys and interviews with business executives, the study identified significant shortcomings, including regulatory uncertainty and high compliance costs. To improve the situation, the study suggested that establishing clearer regulations and ensuring more predictable enforcement could enhance compliance and alleviate the operational difficulties faced by businesses, ultimately fostering a more stable and efficient regulatory environment.

Mukokoma and Tushabwomwe (2019) investigated the impact of regulatory changes on small and medium-sized enterprises (SMEs) in Uganda. The study delves into how these businesses adapt to shifting regulatory landscapes. Through empirical data, the research demonstrates that frequent regulatory changes contribute to uncertainty and elevate compliance costs for SMEs. To mitigate these challenges, the study recommends creating more stable regulatory environments and establishing support mechanisms that can assist SMEs in managing compliance more effectively, thereby reducing the burden and enhancing their operational efficiency.

Omondi and Theuri (2019) conducted a comprehensive investigation into the regulatory compliance challenges faced by businesses in Kenya. Their study explored how these businesses navigate and manage regulatory requirements. Through data collected from surveys and interviews, they identified significant problems such as bureaucratic inefficiencies, excessive compliance costs, and complex regulatory processes. The study highlighted that regulatory simplification and improved coordination among regulatory agencies could address these challenges, ultimately enhancing compliance and operational efficiency. The authors advocate for streamlined regulatory procedures and better inter-agency collaboration to facilitate smooth business operations and reduce burdens on businesses.

Supervision and Operational Compliance

Lyu, Xie and Li (2022) examined the impact of regulatory supervision on operational compliance in China. The study mainly examined the effectiveness of China's regulatory supervision mechanisms. The study used survey data from a range of industries. The study found that while regulatory supervision has generally improved compliance rates, there are other unresolved challenges due to complexity of regulations and regional disparities in enforcement. Their research highlighted that inconsistent application of regulations across different regions and sectors can create confusion and compliance difficulties for businesses. The study suggested that improving the consistency of regulatory enforcement and increasing transparency in supervision processes could enhance overall compliance.

In Zambia, Banda (2019) investigated supervision and compliance challenges in Zambian Enterprises. The study provided insights into how regulatory supervision impacts operational compliance. The study collected data from surveys and interviews with business leaders, It found that businesses in Zambia often struggle with inadequate supervisory resources and inconsistent enforcement. The study findings suggested that improving the quality and consistency of regulatory supervision is crucial for enhancing compliance and operational efficiency.

Mnif and Borgi (2020) conducted a study on supervision and compliance in South African Businesses. The study investigated the impact of regulatory supervision on business compliance. The study, which utilized data from surveys of business executives and regulatory officials, found that while South Africa has a well-established supervisory framework, businesses still encounter problems related to regulatory complexity and enforcement consistency. It recommended enhancing the effectiveness of supervisory mechanisms and streamlining regulatory processes to support better compliance.

In Ethiopia, Abitew and Ababa (2021) examined the effectiveness of regulatory supervision on compliance in Ethiopian firms. The study aimed to explore how regulatory supervision impacts operational compliance. The study used data from surveys and interviews with business leaders and regulatory officials. The study found that while regulatory supervision has improved, businesses still face challenges such as inconsistent enforcement and limited supervisory capacity. The study suggests that increasing the resources available for supervision and ensuring more uniform application of regulations could enhance compliance.

Ndung'u, Were and Mwangangi (2020) examined supervision and compliance challenges in Kenyan enterprises. The study by investigates how regulatory supervision influences compliance among businesses in Kenya. Data from surveys and interviews reveal that while there are established supervisory mechanisms, businesses often face challenges related to regulatory complexity and inconsistent enforcement. The study suggests that enhancing supervisory practices and improving regulatory clarity could help businesses achieve better compliance outcomes.

Promotion of sound business practices and Operational Compliance

Boudreau (2020) carried out a study on enhancing business practices and compliance in Bangladesh: The study aimed to examine how businesses in Bangladesh implement sound practices to improve compliance with operational regulations. The study utilized survey data and interviews with business managers. It found that while there is an increasing awareness of the importance of compliance, businesses face challenges in accessing compliance training and complexity of regulatory requirements. The study highlights the need for more comprehensive training programs and clear guidelines to promote sound business practices and enhance operational compliance.

In Ghana, Amo-Mensah (2021) conducted a study on promoting compliance and best practices in Ghanaian Businesses. The study investigated how businesses in Ghana adopt best practices to meet regulatory requirements. Based on data from surveys and interviews with business leaders, it showed that while there is a growing emphasis on compliance, challenges as inconsistent regulatory enforcement and a lack of resources for training persist. The study recommended enhancing regulatory oversight and more accessible training programs to support businesses in adopting sound practices and improving compliance.

In Rwanda, Bwimba and Nkechi Irechukwu (2024) conducted a study on sound business practices and compliance in Rwandan Enterprises. The study examined how businesses in Rwanda implement best practices to achieve compliance. Using data from surveys and interviews, It was found that while there has been significant progress in promoting compliance through regulatory reforms and business training programs, gaps exist such as limited resources and occasional regulatory ambiguities. The study suggested increasing support for businesses and providing clearer regulatory guidelines which enhance compliance and the adoption of sound practices.

In Kenya, Kariuki (2020) conducted a study on promoting compliance and best practices in Kenyan Firms. It explored how Kenyan businesses adopt sound practices to meet regulatory requirements. Through surveys and interviews with business leaders and compliance officers, the study found that while there is growing recognition of the importance of compliance, businesses face obstacles relating to regulatory complexity and limited access to training. The study recommended simplifying regulatory frameworks and expanding training programs to support better compliance and the implementation of sound business practices.

In Kenya, Pere and Theuri (2019) examined government initiatives and their impact on business compliance in Kenya. The study assessed how government initiatives influence operational compliance among Kenyan businesses. Using empirical data from interviews with government officials and business owners, it was found that government efforts to promote compliance had a positive impact but was hindered by inconsistent enforcement and limited resources. The study suggested that enhanced consistency of enforcement and increasing support for compliance initiatives could improve adherence to best practices and regulatory requirements.

Conceptual Framework

Figure 1 presented the hypothesized relationship between independent and dependent variable. Independent variables included authorization, regulation, supervision and promotion of sound business practices. The dependent variable was operational compliance.

Independent Variables **Dependent Variable**

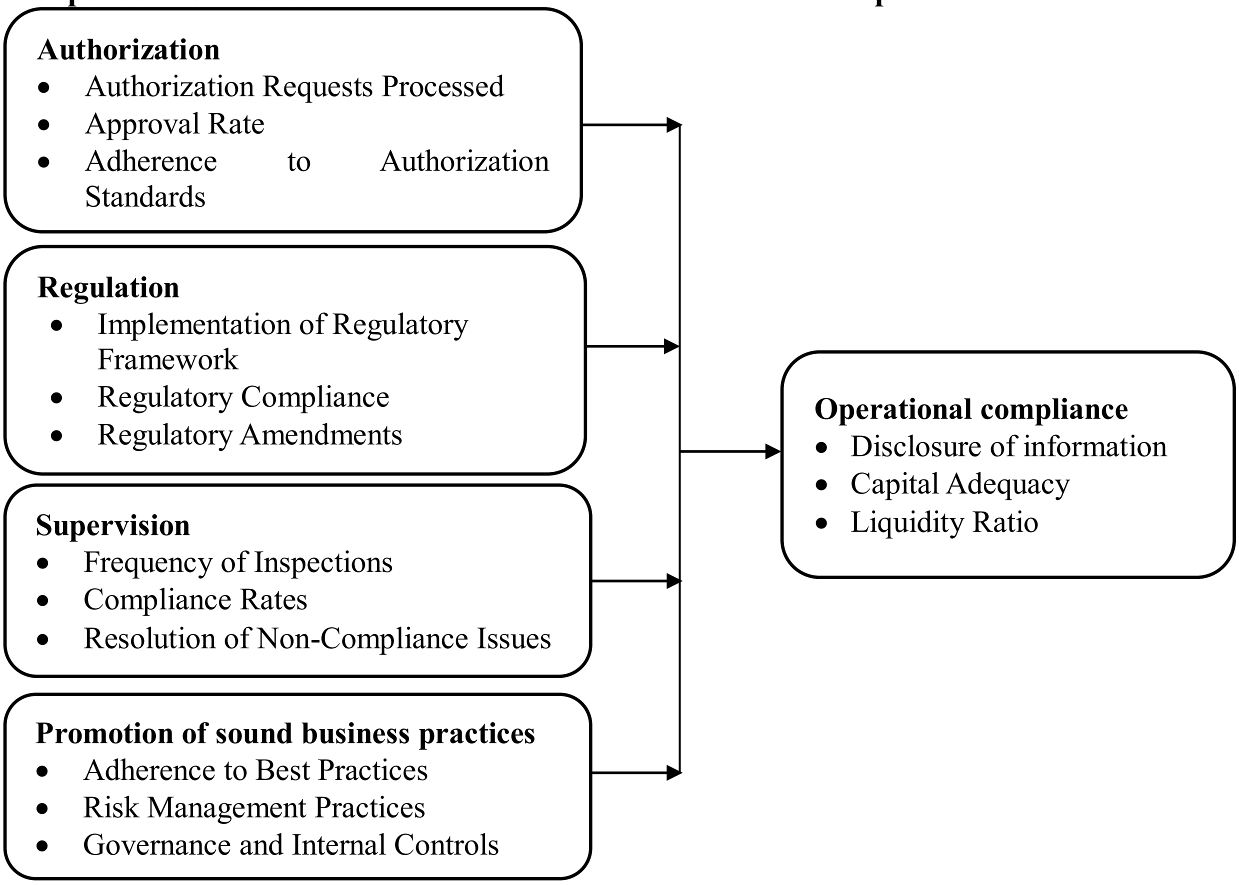

Figure 1: Conceptual Framework

Research Methodology

The study adopted a systematic review of literature. Systematic reviews of literature are rigorous and comprehensive methods used to gather, assess, and synthesize existing research studies on a specific topic or research question (Ritterbusch & Teichmann, 2023). These reviews follow a systematic process that involves several key steps. First, researchers formulate a clear research question or objective to guide the review. Then, they develop a systematic search strategy to identify relevant studies, which often involves searching multiple electronic databases using predefined keywords and filters. Next, studies are screened based on predefined inclusion and exclusion criteria, with both titles and abstracts initially assessed to identify potentially relevant articles (Booth & Papaioannou, 2021). Full-text articles of potentially relevant studies are then retrieved and assessed for eligibility. Data from eligible studies are systematically extracted using standardized forms, and the quality and risk of bias of included studies are critically appraised using established criteria. Finally, the findings of included studies are synthesized using appropriate methods, such as narrative synthesis, to provide a comprehensive overview of the existing evidence.

In a study on the regulatory authority and operational compliance of specified non-deposit taking SACCOs in Nairobi City County, Kenya, a systematic review of literature offers a thorough and methodical approach to evaluate existing research, regulations, and compliance practices related to SACCO operations. This approach involves systematically searching, selecting, and assessing relevant literature to gain comprehensive insights into the regulatory landscape and operational challenges faced by non-deposit taking SACCOs. By identifying key trends, regulatory impacts, and compliance issues, researchers can inform evidence-based policy recommendations and enhance the effectiveness of regulatory frameworks. Additionally, systematic reviews improve the reliability and validity of study findings by reducing bias and ensuring a transparent review process, thus contributing to better regulatory practices and operational standards within the SACCO sector in Nairobi City County (Ritterbusch & Teichmann, 2023).

Results and Discussion

This section reviewed empirical evidence on the effect of authorization, regulation, supervision and promotion of sound business practices on operational compliance of specified non-deposit taking SACCOs.

Authorization and Operational Compliance of Specified Non-Deposit Taking SACCOs

Authorization is a critical process within the regulatory framework for SACCOs, directly impacting their operational compliance (Munene, 2019). The number of authorization requests processed by SASRA reflects the volume of applications reviewed, which can indicate the level of regulatory activity and oversight (Gitonga & Miano, 2020). Efficient processing of these requests ensures that SACCOs are evaluated in a timely manner, facilitating their ability to operate under clear regulatory guidance (Kariuki, 2020). Mbiru (2019) observed that this timely review is crucial for maintaining standards related to information disclosure, capital adequacy, and liquidity ratios, as it allows SACCOs to address compliance challenges promptly and avoid operational disruptions.

The approval rate of authorization requests is another important measure of regulatory effectiveness. Mwikoma (2020) observed that this rate represents the percentage of applications approved compared to those rejected or pending. A high approval rate may suggest that SACCOs are generally meeting the necessary criteria for authorization, indicating effective compliance with regulatory standards (Njoroge, 2021). Conversely, a low approval rate could highlight challenges in meeting authorization requirements or potential areas where regulatory criteria may need adjustment (Yegon, 2021). Understanding approval trends helps assess whether SACCOs are aligning with operational requirements and provide insight into the effectiveness of the authorization process in supporting compliance with disclosure, capital adequacy, and liquidity standards (Maingi, Kinanga & Odimba, 2019).

According to Oguku (2019), adherence to authorization standards measures show how well SACCOs follow the guidelines and requirements set forth during the authorization process. This adherence is important for ensuring that SACCOs operate within the regulatory framework and maintain compliance with essential operational standards (Omondi & Theuri, 2019). Evaluating adherence involves assessing whether SACCOs meet the criteria for authorization, including maintaining appropriate levels of capital and liquidity, and providing accurate information (Onjure, Muia & Aseka, 2021). High levels of adherence contribute to better overall operational compliance, ensuring that SACCOs effectively manage their financial responsibilities and regulatory obligations (Nteere, 2022). By monitoring adherence to authorization standards, SASRA can better support SACCOs in achieving and sustaining high levels of compliance.

Regulation and Operational Compliance of Specified Non-Deposit Taking SACCOs

According to Mwita (2022), regulations play a pivotal role in shaping the operational landscape of SACCOs, influencing their adherence to essential compliance standards. The implementation of the regulatory framework reflects how effectively new and existing regulations are applied to SACCOs (Jumba, 2021). This involves the integration of regulations into daily operations and ensuring that SACCOs comply with these rules (Kemboi, 2019). Effective implementation is crucial for maintaining high standards of operational compliance, particularly in areas of disclosure of information, capital adequacy, and liquidity ratios (Kinyenze, (2022). A well-applied regulatory framework ensures that SACCOs operate within established guidelines, thereby supporting their stability and financial integrity.

Riro, Gatheru and Mutiso (2020) indicated that regulatory compliance measures the extent to which SACCOs adhere to regulatory requirements and guidelines. This is often quantified by the percentage that SACCOs meet the prescribed standards (Kariuki, 2020). High compliance rates indicate that SACCOs are successfully following regulations related to financial disclosure, adequate capital reserves, and the liquidity (Ithuku, 2019). Tracking this percentage helps regulators assess the overall effectiveness of the regulatory framework and identify areas where SACCOs need additional support for enforcement (Ndung'u, Were, & Mwangangi, 2020). Effective compliance ensures that SACCOs remain within legal and operational boundaries which reduce risks thus enhancing overall stability.

Further, Njoroge, (2021) indicated that regulatory amendments involve changes or updates to existing regulations and their impact on SACCOs. The number of amendments made to regulations can indicate an evolving regulatory landscape designed to address emerging issues or improve oversight (Ndegwa & Koori, 2019). Evaluating the impact of these amendments is essential to understand how they influence SACCO operations and compliance (Mbiru, 2019). Amendments might be aimed at enhancing disclosure requirements, adjusting capital adequacy standards, or refining liquidity ratios. The effectiveness of these changes can be measured by examining whether SACCOs are better able to meet compliance standards following regulatory updates (Nteere, 2022). Understanding the implications of these amendments helps ensure that regulations remain relevant and effective in promoting sound operational practices.

Supervision and Operational Compliance of Specified Non-Deposit Taking SACCOs

Supervision is a critical function that ensures SACCOs adhere to regulatory and operational standards, which directly impacts their operational compliance (Mutinda, 2019). The frequency of inspections, both routine and special, is a primary measure of the effectiveness of supervision (Kiambi, 2023). Regular inspections help maintain oversight, while special inspections address specific concerns or emerging issues (Kibue & Mang'ana, 2022). A higher frequency of inspections lead to better monitoring and quicker identification of potential problems, which is crucial for maintaining operational compliance (Nyumoo, 2020). Infarct, frequent inspections help regulators to ensure SACCOs consistently meet standards of information disclosure, capital adequacy, and liquidity ratios, therefore preventing lapses that may distort overall compliance.

Biwott (2020), alludes to compliance rates becoming key indicators of effectiveness. The rates indicate the proportion of SACCOs which adhere to regulatory and operational standards after inspection (Yegon, 2021). High compliance rate indicates how SACCOs successfully align their operations with regulatory requirements of information disclosure, adequate capital reserves, and liquidity management (Kinyenze, 2022). They assess SACCO ability to meet essential standards and identify reinforcement gaps for improving compliance.

Resolving non-compliance gaps shows the effectiveness of the supervision process (Riro, Gatheru, & Mutiso, 2020). The speed with which gaps are identified during inspection plays a significant role in the assessment process (Ithuku, 2019). Prompt resolution is an essential factor that allows SACCOs to quickly correct existing deficiencies, enabling them to continue operating within an established regulatory framework. (Mwita, 2022). Delays in resolving non-compliance exacerbate risks and lead to financial instability (Jumba, 2021). Efficient gap resolution process sustains SACCO financial health and regulatory compliance.

Promotion of Sound Business Practices and Operational Compliance of Specified Non-Deposit Taking SACCOs

Promoting sound business practices within SACCOs regulated by SASRA is important for ensuring operational compliance and overall effectiveness (Kinyuira, 2020). One key area of focus is adherence to best practices, which encompasses compliance with established guidelines in governance, risk management, and financial operations (Munene, 2019). This is measured by the percentage of SACCOs that implement recommended best practices, providing a clear indication of how well the organizations align with industry standards (Nyumoo, Mwambia, & Rintari, 2020). The frequency of best practice training is a good metric, which reflects the commitment to continuous improvement and the level of staff engagement (Kiambi, 2023). Regular training sessions help ensure that SACCO staff are well equipped with the current best practices, which lead to effective governance and risk management, ultimately enhancing operational compliance as related to disclosure of information, capital adequacy, and liquidity ratios.

Efficient risk management practices are fundamental in promoting sound business operations within SACCOs (Kemboi, 2019). Risk assessment procedures particularly the frequency and quality directly impact the ability to identify and address potential operational, financial, and strategic risks (Mutinda, 2019). Regular assessments help SACCOs proactively manage threats, reducing cases of non-compliance and ensuring financial stability (Kiambi, 2023). The process of incident reporting and its resolution involves tracking the number of risk-related incidents thus evaluating their effectiveness and timeliness (Nyumoo, 2020). An efficient incident management system not only addresses gaps promptly but also strengthens compliance by resolving problems that could otherwise affect disclosure practices, capital adequacy, and liquidity.

Governance and internal controls are other essential components in promoting sound business practices (Nyumoo, Mwambia & Rintari, 2020). The presence and effectiveness of governance structures, such as boards and committees, are an indication of SACCO commitment to strong oversight and accountability (Munene, 2019). Effective governance enhance decision making which support compliance for regulatory requirements (Biwott, 2020). Internal control systems are equally important. They safeguard assets and ensure accurate financial reporting. Evaluation of these systems helps to justify their functionality to prevent mismanagement and fraud (Nyumoo, 2020). Strong governance and internal controls contribute to operational compliance by ensuring accurate disclosures, maintaining capital adequacy, and managing liquidity effectively. The two measures support the integrity and stability of SACCO operations.

Conclusions and Recommendations

Conclusions

The study concludes that authorization influence operational compliance of specified non-deposit taking SACCOs in Nairobi City County. The volume of authorization requests processed by SASRA reflects the regulatory oversight's intensity and effectiveness. Timely and efficient processing is essential, as it ensures SACCOs receive clear guidance and can address compliance gaps related to disclosure, capital adequacy, and liquidity without operational interruptions. The approval rate of these requests serves as a key indicator of regulatory effectiveness; a high rate suggests that SACCOs generally meet regulatory criteria, while a low rate reveal areas needing improvement or adjustment in regulatory standards. Adherence to authorization standards is important for maintaining operational compliance and ensuring that SACCOs manage their financial responsibilities effectively. Monitoring these aspects enables SASRA to support SACCOs in achieving and maintaining high compliance levels.

The study concludes that regulation influences operational compliance of specified non-deposit taking SACCOs. Effective implementation of these regulations integrates them into daily operations to maintain high standards of disclosure, capital adequacy, and liquidity ratios. High regulatory compliance rates reflect SACCOs' success in meeting prescribed standards, which supports their stability and financial integrity. Regulatory amendments, which adjust existing rules to address emerging issues, also play a crucial role in refining oversight. Evaluating the impact of these amendments helps regulators ensure that SACCOs remain compliant and adapt to evolving requirements. By continuously assessing and refining the regulatory framework, regulators can better support SACCOs in achieving robust operational compliance and maintaining financial health.

The study further concludes that supervision influences operational compliance of specified non-deposit taking SACCOs. The effectiveness of supervision is largely measured by the frequency of inspections, which include both routine and special evaluations. Regular inspections provide ongoing oversight, while special inspections address specific issues, helping to identify potential problems early and ensuring that SACCOs adhere to standards related to information disclosure, capital adequacy, and liquidity. High compliance rates following inspections indicate that SACCOs align well with regulatory requirements, while prompt resolution of non-compliance issues is crucial for maintaining operational stability. Efficient supervision and issue resolution processes are vital for SACCOs to uphold compliance, avoid financial instability, and support their overall regulatory adherence.

The study further concludes that promotion of sound business practices influences operational compliance of specified non-deposit taking SACCOs. Adherence to best practices, which include governance, risk management, and financial operations, is a key focus area. The percentage of SACCOs implementing these practices and the frequency of best practice training reflect their commitment to continuous improvement and staff engagement. Effective risk management, through regular risk assessments and efficient incident reporting, helps SACCOs pro-actively address threats and maintain financial stability. In addition, strong governance and internal controls are crucial for ensuring oversight, preventing mismanagement, and maintaining efficient financial reporting. All these practices support compliance with disclosure, capital adequacy, and liquidity standards, fostering the overall integrity and stability of SACCO operations.

Recommendations

The study recommends that SASRA should enhance its focus on streamlining the authorization process for non-deposit taking SACCOs to further improve operational compliance. This involves ensuring timely and efficient processing of authorization requests to provide SACCOs with clear regulatory guidance. SASRA should also regularly assess the approval rates to identify any areas where SACCOs struggle to meet regulatory criteria, allowing for timely adjustments to standards. Continuous monitoring of adherence to authorization standards is essential to maintain effective compliance and financial management. Implementing these measures would help SACCOs to achieve high compliance levels which ensure smooth operations and effective management of financial obligations.

The study recommends that regulators should focus to ensure effective implementation of regulations in order to enhance operational compliance among non-deposit taking SACCOs. This involves integrating seamless regulations into daily operations to uphold high standards in disclosure, capital adequacy, and liquidity ratios. Monitoring compliance rates is important as high rates indicate successful adherence to standards, contributing to SACCOs' stability and financial integrity. Regulators should regularly evaluate the impact of regulatory amendments to address emerging issues and refine oversight. Continuous assessment and refining regulatory framework may help SACCOs adapt to evolving requirements, thereby supporting robust operational compliance and sustained financial health.

SASRA should enhance its supervisory efforts by increasing the frequency of routine and special inspections to improve operational compliance in non-deposit taking SACCOs. Regular inspections provide essential oversight and help identify issues early, while special inspections address specific concerns. High compliance rates of post-inspection demonstrate effective alignment with regulatory standards. It is necessary to ensure prompt resolution of identified non-compliance gaps to maintain operational stability and prevent financial instability. Strengthening supervision and gap resolution processes may support SACCOs in meeting compliance requirements and maintaining regulatory adherence, ultimately contributing to their financial stability and operational effectiveness.

SASRA should prioritize the promotion of sound business practices to enhance operational compliance in non-deposit taking SACCOs. It should emphasize adherence to best practices in governance, risk management, financial operations and strive increase the percentage of SACCOs implementing these practices by providing regular best practice training, which reflect their commitment to continuous improvement and staff engagement. It should ensure that risk management is robust, with frequent risk assessments and efficient incident reporting to address potential threats proactively and maintain financial stability. Reinforcing strong governance and internal controls to prevent mismanagement which ensure efficient financial reporting is equally important. These measures would support compliance with disclosure, capital adequacy, liquidity standards, ultimately fostering the integrity and stability of SACCO operations.

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